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FOR NEA/ARP:AMACDONALD

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TAGS: [ECON](#) [EFIN](#) [EAID](#) [YM](#)  
SUBJECT: ROYG COOLING ON LIFTING SUBSIDIES

REF: SANAA 716

Classified By: Ambassador Stephen A. Seche for reasons 1.4 (b) and (d)

Summary  
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¶1. (C) In contrast to the enthusiasm expressed in April, the ROYG now seems less interested in following through on the lifting of diesel subsidies. Never popular with the average Yemeni, lifting subsidies probably seems less important now that rising oil prices have removed some of the fiscal pressure on the ROYG. Although reformers still recognize the importance of the move, it is unlikely to happen until the political situation in Yemen stabilizes. End Summary.

Lukewarm on Lifting Subsidies  
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¶2. (C) Deputy Finance Minister Jalal Yacoub recently told EconOff that the ROYG had decided to put its initiative to end diesel subsidies on hold. When the Ambassador raised the issue with Deputy Prime Minister for Economic Affairs and Minister for Planning and International Cooperation Abdulkarim al-Arhabi, Arhabi gave a lukewarm response saying that a number of scenarios had been presented and the Prime Minister was considering the issue. Arhabi also noted the need for an effective public-information campaign to be undertaken before subsidies were lifted, as an essential ingredient in avoiding the negative public reaction that greeted the 2005 attempt. The World Bank is designing this communications strategy, he said. These remarks are a strong contrast to what was said in April (reftel), when a much more positive Arhabi lauded the plan to lift the subsidies and Prime Minister Ali al-Mujawar said he expected a decision on them "by the end of the month."

Where Did the Enthusiasm Go?  
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¶3. (C) There are several reasons why the ROYG may be moving away from lifting subsidies. The idea was never popular with Embassy contacts outside of the donor community. Abdulkhakim al-Eryani, Director of the Foreign Minister's Office, told POL/E Chief in May, "Now is not the time (to lift subsidies). It may be the logical next step but you have to choose your moment. If they lift the subsidies now, what happened in 2005 (when civil unrest ensued) will be multiplied." Sheikh Kamal Mohammed al-Shareef, leading Sheikh in the town of Bani Hushaish, told POL/E Chief in April, "there must be a better way to get the money that they need." Assistant Secretary General Mohamed al-Sadi of the opposition Islah party warned in early June that the Yemeni people, "won't stand for" lifting the subsidies. Even donor-country diplomats concede that lifting subsidies will be unpopular. On June 20, when POL/E Chief commented that the ROYG was backing away from the idea, German DCM Michael Reuss laughed and said, "because they can't."

¶4. (C) The ROYG may also feel less need now to lift the subsidies. With oil prices hovering in the high \$60s bbl range, there is substantially less fiscal pressure on the ROYG than in March when it was hovering in the low \$40s bbl. (Note: The current ROYG budget was prepared based on an assumed price of \$45 bbl. End Note.) Additionally, the intensification of unhappiness in Yemen's southern governorates amplifies the risks to the regime of taking such an unpopular step.

Still a Good Idea

¶5. (C) Reformers nonetheless continue to recognize the importance of lifting subsidies. On May 24, the EU issued a communique urging, among other things, the lifting of subsidies in an attempt to keep the ROYG focused on this issue. Dr. Mohamed al-Qubati, Director of Foreign Relations of the ruling General People's Congress, told POL/E Chief on June 23, "most of the benefit of the subsidies goes right into the pocket of the diesel smugglers (who buy at the subsidized price and then sell the diesel outside of Yemen at the free-market price). That's a lot of money every year going to people who do not need it."

Comment

¶6. (C) Getting rid of fuel and other subsidies is an important part of economic reform for Yemen in the long-term. The considerable cost of the subsidies is a drag on Yemen's beleaguered budget and the disparity between the subsidized and free market price is an inducement to corruption. Until current conditions stabilize, however - and the ROYG mounts its national communications strategy - it is unlikely that the ROYG will be willing to take such a politically risky step. End Comment.  
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